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3 **Any request for reconsideration of this Order must be filed in writing within ten (10 days)**
4 **at the office of the Washington Horse Racing Commission**
5 **7912 Martin Way, Suite D, Olympia, WA. 98516**

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7 **STATE OF WASHINGTON**
8 **BEFORE THE**
9 **WASHINGTON HORSE RACING COMMISSION**

10 In Re:

11 THE LICENSE APPLICATION OF
12 LILAC CITY RACING
13 ASSOCIATION.

NO. 99-01

REVISED FINDINGS OF FACT,
CONCLUSIONS OF LAW
AND ORDER

14 1. On February 10, 1999, the Washington Horse Racing Commission (WHRC) received an
15 application from Lilac City Racing Association (Lilac) for a license to operate Playfair Race
16 Course in Spokane, Washington.

17 2. On May 21, 1999, following an adjudication, the WHRC issued Findings, Conclusions
18 and an Order agreeing to grant a license to Lilac if certain conditions were met.

19 3. On July 27, 1999, the WHRC issued a Revised Order finding that the requirements of the
20 May 21, 1999 Order had not yet been met and that Lilac would be unable to operate a 1999 race
21 meet. Lilac was given until November 1, 1999 to meet the conditions for licensing.

22 4. On November 8, 1999 a hearing was held in this matter following due and proper notice
23 to all parties. At the time and place for the hearing, Lilac City was represented by John
24 Montgomery, Attorney at Law, of Waldo, Schweda, Montgomery & Gales, P.S., and by Ross
25 Yearout its General Manager. The WHRC Staff was represented by the Office of the Attorney
26 General per Carol Smith Merkulov, Senior Counsel. Northwest Racing was represented by
Richard Caragol, CFO of Emerald Downs. Walla Walla and Sundowns were represented by R.F.

1 “Dick” Monahan and Cliff Schellinger. The Washington Thoroughbred Breeders (WTBA) was
2 represented by Ralph Vacca its General Manager. The Washington Horseman’s Benevolent and
3 Protective Association (WHBPA) was represented by Larry Hillis its President and Lee Brauer,
4 its Secretary/Treasurer. OPHRN was neither present nor represented.

5 5. These Findings, Conclusions and Order supersede the May 21, 1999 and July 27, 1999
6 Orders insofar as this Order is inconsistent with those previously issued in this matter.

7 6. At the hearing on November 8, the WHRC admitted into the record a Staff Report. Also
8 admitted were all of the revised and additional materials that had been provided by Lilac to the
9 WHRC since the issuance of the last order, as indexed in the Staff Report. Copies of all
10 materials had been provided to all parties at the time of their submission. There were no
11 objections to the inclusion of the Lilac materials into the record.

12 The WHRC also admitted into the record a November 4, 1999 letter from Jim Johnston,
13 attorney at law, on behalf of Northwest Racing. The WHRC now hereby includes in the record a
14 letter from Hartly Kruger in response to Northwest Racing. The letter details contacts that Mr.
15 Kruger has had with Lilac as required by Chapter 34.05.455(5).

16 7. The WHRC is the sole judge of whether or not a race meet shall be licensed. RCW
17 67.16.050. The burden is upon the applicant to prove its qualification to receive a racing license.
18 Provided that Lilac comply with the provisions of the Order contained herein, the WHRC finds
19 that Lilac has proven its qualification to receive a racing license.

20 8. The WHRC recognizes that Playfair has not been financially viable in the recent past.
21 Financial problems are not unique to Playfair. The WHRC has recognized that the horse racing
22 industry has declined nationally over the past several years primarily due to competition from
23 other forms of gaming. In 1998, Yakima Meadows closed after 10 racing days leaving unpaid
24 debts. Accordingly, the WHRC has a duty and responsibly to insure that Lilac has the financial
25 resources to successfully operate Playfair. Although Lilac is a non-profit entity, unlike the
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1 previous operators of Playfair, the WHRC nonetheless must protect the interests of the
2 participants, the employees and the patrons.

3
4 9. The WHRC made the following determinations in its July, 1999 Order.

5 9.1. *Prior to conducting any racing business at the facility, Lilac City must insure that the*
6 *necessary physical repairs detailed in Exhibit 14 and Finding of Fact 13 contained herein, have*
7 *been completed. It is unclear to the WHRC whether Appleway, MTHRC or Lilac City is*
8 *responsible for the necessary repairs. However, the repairs must be completed before the*
9 *facility can be used for training, simulcasting or racing. Lilac City shall work with WHRC Staff*
10 *to insure that required repairs are being made. WHRC staff shall report to the Commission when*
11 *the facility is safe for occupancy by licensees and the public.*

12
13 Inspections have been made of the Playfair facility. The WHRC must require a
14 final inspection prior to the conduct of any race meet.

15 9.2. *Lilac City must amend its lease with MTHRC to insure that Lilac City has complete*
16 *control over, and priority right to use the Playfair facilities during all times when live racing or*
17 *simulcasting are being conducted under a license issued by the WHRC. The lease should also*
18 *provide priority for training activities prior to any scheduled race meet.*

19
20 MTHRC has abandoned its lease with Appleway. Accordingly, Lilac has entered into a
21 lease directly with Appleway allowing it to have full use of the Playfair facilities.

22 9.3. *Lilac City must forthwith submit an audited Balance Sheet to the WHRC for its review*
23 *and approval. This submission must include, in part, estimated revenue and expenses per day*
24 *for live and simulcasting activities.*

1 *During the next year, Lilac City shall submit monthly financial statements to the*
2 *Commission, to be due on the 15th of every month.*

3 Lilac has submitted a Balance Sheet, which has been examined by the WHRC and its
4 financial advisor, Ralph Smith. However, Lilac has not submitted monthly financial statements
5 as required by the WHRC's previous Order. Monthly financial statements must be submitted.

6 9.4. *Lilac City's twenty (or more if additional investors are added) investors must execute*
7 *new agreements in which they agree to defer the repayment of funds (with interest) for a period*
8 *of three years, unless prior distribution is approved in advance by the WHRC.*

9 New agreements have been executed as required.

10 9.5. *Lilac City must have \$800,000 in irrevocable funds available before commencing racing*
11 *operations. Such funds may include the estimated \$300,000 director's loans and a \$500,000*
12 *irrevocable line of credit. The WHRC has concerns about the Lilac City's financing and while*
13 *we believe that \$800,000 may not be adequate, this amount is based upon Lilac City's*
14 *projections. The WHRC believes that \$800,000 is needed to get Lilac City started and to see it*
15 *through the first year of operation until it has an established cash flow. The WHRC recommends*
16 *that the notes (loans) be converted to equity but will not require the applicant to do so. Ralph*
17 *Smith shall review Lilac's revised financial plan when completed and report to the WHRC for its*
18 *approval.*

19 *Lilac City shall rectify the securities issue to the satisfaction of the WHRC. The WHRC*
20 *must be assured that Lilac City has not committed any securities violations.*

21 Lilac has an irrevocable line of credit in the amount of \$500,000 in a form acceptable to
22 the WHRC. This document still needs to be executed and this must be done.

1 It remains unknown whether the Lilac securities offering meets applicable state and/or Federal
2 law. A possible securities law violation could effect the financial condition of the applicant. The
3 securities issue must be rectified.

4 9.6. *Lilac City shall establish a separate account for maintaining Breeders Awards on terms*
5 *acceptable to the WTBA. The WHRC suggests that the account either be held in trust or that a*
6 *representative of the WTBA shall be a signatory on the account.*

8 Lilac City has established an account for the benefit of Breeders Awards, which is
9 acceptable.

10 9.7. *Lilac City shall establish a separate account for horsemen's purses. This account shall*
11 *not be used for operational expenses. Lilac City shall forthwith negotiate a purse contract with*
12 *the horsemen (and women). The purse contract shall include provisions and an agreement to*
13 *deal with the distribution of simulcast monies as required by RCW 67.16. 200. The purse*
14 *contract shall be subject to approval by the WHRC.*

16 An agreement dated August 10, 1999 has been entered into between Lilac and OPHRN,
17 the organization representing horsemen and women racing at Playfair. This agreement contains
18 provisions regarding percentages of handle to be allocated for purses. None of the parties
19 objected to the provisions of the purse contract and therefore the WHRC finds the agreement
20 acceptable.

22 *At such time as Lilac City commences a race meet, the WHRC shall forthwith release the*
23 *purse funds that it has been holding in trust for the horsemen, and women.*

24 9.8 *All management personnel must be approved by the WHRC and all employees must be*
25 *licensed. Prior to commencement of any race meet, Lilac City must submit a list of officials and*
26 *a wagering plan for approval by the WHRC.*

CONCLUSIONS OF LAW

1. The WHRC has jurisdiction over this matter pursuant to the provisions of Chapter 67.16 RCW, Chapter 34.05 RCW and Title 260 WAC.

2. Pursuant to RCW 67.16.020 and WAC 260-13-340, it would be in the best interests of legitimate racing and of the public to grant a Class B license to Lilac City Racing Association.

ORDER

Lilac City Racing Association is hereby granted a license to operate Playfair Race Course in Spokane, Washington, conditioned upon the following:

1. Lilac must apply for and be granted racing dates.

2. If Lilac is approved for a minimum of forty (40) days of racing, the WHRC will approve Lilac to commence full-card simulcasting pursuant to RCW 67.16.200 and subject to the following:

2.1 Specific simulcast race/track/full card requests must be approved by the WHRC in advance.

2.2 RCW 67.16.220 states in part:

(f) On any imported simulcast race, the class 1 racing association shall pay fifty percent of its share of the parimutuel receipts to the horsemen's purse account for its live race meet after first deducting the purchase price of the imported race and the actual costs of importing the race.

1 Lilac and OPHRN have agreed to an amount equal to 5% of handle on imported simulcast races
2 as the horsemen's share of imported simulcasting receipts. These moneys shall be deposited in
3 the interest-bearing trust account described below at 2.3.

4 2.3 Lilac shall establish an interest-bearing trust account for the preservation of the
5 horsemen's purse funds generated from full-card simulcasting. Monies may be removed from
6 this account only for purses of a live meeting and only upon approval of the WHRC. Lilac shall
7 provide a monthly accounting to the WHRC of the monies in this account. Lilac may use this
8 account as its regular purse account or establish a second account for race meet generated purses.
9 The regular purse account (if not this trust account) must be established solely for the benefit of
10 horsemen's purses. Such accounts are subject to the approval of the WHRC and must be in place
11 prior to commencement of any operations.
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13 2.4 If for any reason Lilac should not conduct or complete a race meeting, any purse
14 monies held by the WHRC or held by Lilac under 2.3 above, shall be held by the WHRC and
15 distributed to licensed Washington racing associations to be used solely for purses.
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17 3. At such time as Lilac commences a race meet, the WHRC shall forthwith release the
18 purse funds from the previous operation of Playfair that it has been holding in trust for the
19 horsemen and women. Such monies shall be used only for purses and may not be used for
20 operational expenses.
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22 4. Prior to commencing any operations, including simulcasting, the \$500,000 letter of credit
23 must be executed and a copy provided to the WHRC.

24 5. Lilac must rectify the securities issue to the satisfaction of the WHRC no later than June
25 1, 2000. The WHRC will accept either an opinion from a lawyer whose practice is solely in
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1 securities law that the Lilac securities offerings comply with all applicable law; or, an
2 amendment of its securities offering to come into compliance with applicable securities law.

3 6. Lilac shall submit a financial statement to the WHRC to be due on the 15th of every
4 month. Additionally, Lilac must submit an annual audited financial statement.

5 7. At least one month prior to commencement of any race meet the WHRC shall conduct a
6 final inspection of the facilities to insure that it meets the requirements contained in the Rules of
7 Racing and the WHRC's prior orders in this matter.

8 8. Prior to commencing any race meet, Lilac shall submit a list of its officials to the WHRC
9 for approval. All officials and employees of Lilac must apply and qualify for a license issued by
10 the WHRC.

11 9. Any change in investors must be submitted in advance for approval by the WHRC.
12 Retirement of debt owed to any investor may not take place without WHRC approval.

13 10. Violation of any of the terms of this Order shall be grounds for revocation of Lilac's
14 racing license.

15 IT IS SO ORDERED

16 DATED this _____ day of December, 1999.

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24 BARBARA SHINPOCH
25 WHRC Chairman

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34 HARTLY KRUGER
35 Commissioner

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GUY ROBERTS
Commissioner

DOLORES SIBONGA
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